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FEUQ
Fédération étudiante universitaire du Québec
[University students' federation of Quebec]

INVESTING IN CANADIAN YOUTH TO FOSTER INNOVATION

Federal pre-budget consultations
2015-2016

FEUQ | **CNCS**
Conseil national des cycles supérieurs
[Graduate students' association of Quebec]

The *Fédération étudiante universitaire du Québec* (FEUQ) is a federation of 13 student associations in Quebec representing over 125,000 university students in the province.

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SUMMARY

This brief is submitted by the *Fédération étudiante universitaire du Québec* (FEUQ) and the *Conseil national des cycles supérieurs* (CNCS-FEUQ) as part of the federal pre-budget consultation process and contains three recommendations pertaining to graduate studies. First, CNCS-FEUQ proposes that a tax credit be created to encourage new graduates to settle in economically-challenged regions. The second recommendation is to decrease the tax credit for tuition fees and textbooks and to re-direct those monies into the Canada Social Transfer (CST) Post-Secondary Education Fund. The third and final proposal suggests various initiatives that would result in a higher rate of reimbursement for indirect costs of research.

To see the bibliography, visit: www.feuq.qc.ca/bibliographie

A tax credit would encourage students to settle in the regions after graduation

Canada's resource-based regions are facing economic and demographic challenges: there is a negative replacement rate in many economic sectors and labour shortages are forecast in certain industries over the coming years. There will be strong demand for managers, health professionals and public service professionals as well as openings for jobs in the mining, oil & gas and manufacturing sectors (Government of Canada, 2013a).

Canada's Economic Action Plan 2014 provides support for small business and aims to build prosperity in communities and regions. Combining measures such as the hiring credit and tax relief, the government is doing everything it can to foster the establishment of new businesses. However, today's demographic issues have resulted in a sense of uncertainty among businesses regarding the availability of labour.

A decrease of over 50% in private investment in the mining sector has been observed in certain regions of Quebec, with other industries experiencing drops of up to 40% (Statistique Québec, 2013).

The shortage of local workers has prevented various capital projects from going ahead. In order to foster regional economic development in every Canadian province, it is important to take steps to deal with our decreasing workforce in the regions.

To this end, the FEUQ is proposing a tax credit for new graduates working in regions that have been designated under the *Regional Development Incentives Act*, namely, areas with fewer than 200,000 residents that are experiencing economic and/or social development challenges. The tax credit would be equivalent to 40% of the individual's salary or wages, up to a maximum of $3,000 per annum and a maximum cumulative amount of $8,000.

Bill C-288 was introduced in 2009 and passed third reading in the House of Commons; however the federal elections prevented it from reaching third reading in the Senate. The Office of the Parliamentary Budget Officer even assessed the financial cost of implementing such a measure, which would have been between $180 million and $600 million, depending on the method of estimation.

A similar tax credit was implemented in Quebec in 2006 and, thus far, it has enabled 50,000 new graduates to settle permanently in the regions.

RECOMMENDATION 1
That a tax credit for new graduates working in economically challenged regions (within the meaning of Bill C-288 introduced in 2009) be included in the budget measures of the 2015 Economic Action Plan.

Transfer tax credits for tuition fees and textbooks to the Canada Social Transfer (CST)

The FEUQ's research on tax measures and post-secondary education, published in 2011, exposed the incongruity of federal tax credits available for tuition fees and textbooks (lines 323 and 324 on the income tax return). These tax credits are transferable, non-refundable and used to reduce income tax owing by an amount equivalent to 15% of tuition fees, up to a maximum of $5,000 per taxation year.

There are two major shortcomings in the eligibility criteria for these tax credits. The first is related to their non-refundable nature. Our study suggested that the students who claim the most in terms of tax credits for tuition fees are from low-income households, but are less likely to benefit from it. Accordingly, these tax credits do not appear to be an effective means of increasing accessibility to education. The second shortcoming lies in the fact that the tax credit for tuition fees is a function of current policy in the various provinces. The result is that students across Canada receive differential treatment, based on where they live. For instance, a student living in a province where tuition is higher will receive more of a tax credit than a student with the same income going to school in a province where tuition fees are lower. This means that, ultimately, the overall amount available for students in a given province is a function of its policy on tuition fees. Federally, this creates uncertainty regarding tax credit amounts, which can easily vary, and change at the whim of the provinces.

The federal government's greatest expenditure in terms of higher education is related to the allocation of these tax credits. The FEUQ is proposing that the tax credits in question be eliminated and that the amounts thus made available be channeled into the Canada Social Transfer (CST) Post-Secondary Education Fund. The funding should be allocated on a pro rata basis, according to the number of post-secondary students in each province. This approach would make the tax credit predictable and manageable. It would also allow monies previously allocated to tax credits to be put towards concrete initiatives that would actually make post-secondary education more accessible, in a way that is appropriate to the regional specificities of each province.

Recommendation 2
That tax credits for tuition fees and textbooks be reduced and that the monies thus made available be invested on a pro rata basis through the CST Post-Secondary Education Fund, based on the number of post-secondary students in each province.

Provide better coverage for the indirect costs of research to support innovation and research development.

When federal granting agencies such as the Social Sciences and Humanities Council (SSHRC), the Natural Sciences and Engineering Research Council (NSERC) and the Canadian Institutes of Health Research (CHIR) fund a university research project through a direct grant, there are hidden or indirect costs associated with the various administrative and research support services required (libraries, administration and human resources, maintenance fees and the operation of research space and equipment, etc.). These indirect research costs (IRC) account for between 50% and 65% of all direct research grants.

In 2003, with the intention of supporting a portion of these indirect research costs, the federal government implemented the Indirect Costs Program (ICP), and, initially, the objective was to cover the equivalent of 40% of the money from granting councils. Despite the recommendations of the academic community and, in particular, the Advisory Council on Science and Technology (ACST), which proposed that the IRC coverage rate be increased to 45%, the ICP was unsuccessful in attaining this objective owing to budgetary constraints. As it stands now, Ottawa only reimburses up to 21.5% of the indirect costs of research. Accordingly, the shortfall in the reimbursement rate is borne by the universities, with indirect research costs being covered out of their operating funds. For the 2013-2014 fiscal year, Quebec universities alone accounted for $76 million of the more than $287-million shortfall in indirect research costs for Canadian post-secondary institutions overall.

The CNCS-FEUQ recommends that the ICP contribution be increased from the current 21.5% of research grants to 40%. To reach this target, which was the ICP's original intent, the CNCS-FEUQ proposes that the current funding formula be revamped by amending current IRC reimbursement rates, as follows:

Proposal to amend the ICP's current IRC funding formula

Bracket	Current Rate	Proposed Rate
On the first $100,000	80%	80%
On the next $900,000	50%	50%
On the next $6 million	40%	50%
BALANCE	20%	37.5%

An injection of $286 million in the ICP's annual budget would be required to implement these new reimbursement rates, which is far more than the additional $9 million announced in the 2014-2015 federal budget. If new money is the preferred avenue for boosting the ICP, this measure could be funded on a zero-cost basis by finding money from other programs.

Canada's Economic Action Plan 2013 proposed to provide an additional $37 million annually to support research partnerships between universities and industry through granting councils. This is over and above the $366 million already in the three granting councils' budget for this type of research. Given the considerable funding provided for partnerships between academic researchers and businesses, and the rather limited impact these collaborative relationships have had on Canada's scientific and economic development, the $37 million could instead serve as recurring funding for the ICP.

Furthermore, every year, the Canada Foundation for Innovation (CFI) makes significant funding available from its budget to support the building of research infrastructure, which could be allocated to the Indirect Costs Program. The CNCS-FEUQ is suggesting that half of the CFI's unallocated interest income ($112.5 million in 2013) be used to increase the ICP budget.

Given the sizable investment of public funds in the Scientific Research and Experimental Development Tax Incentive Program, and the mixed results this indirect support strategy has had on R&D, the CNCS-FEUQ recommends allocating $136.5 million from their total $2-billion envelope to funding the ICP.

These three proposals combined would result in an additional $286 million in the ICP budget, raising the IRC coverage rate to 40% of federal grants. The benefits of such an initiative are unquestionable. Indeed, by having to pay indirect research costs, universities have fewer resources to devote to other areas, such as funding scholarships for students. Graduate students are particularly active in the field of research and, as such, are the best people to transfer knowledge and innovation, both social and technical, from universities to industry and civil society. As the Council on Science and Technology points out, research students and graduates are the most powerful transfer mechanism there is between business and universities. Clearly, then, it is important to provide adequate support for the next generation of scientists.

The Association of Universities and Colleges of Canada (AUCC) has shown that the $17 billion invested in academic research generates economic spinoffs of over $60 billion a year; there is a $3.50 return on every dollar that governments spend on research. It follows, then, that an additional $286 million directed into the ICP could yield close to a billion dollars in economic spinoffs for Canada. Meanwhile, every dollar that universities spend to cover shortfalls associated with indirect research costs takes an equal amount out of the hands of researchers, which they could otherwise be using for better research funding, thereby contributing to the country's socioeconomic development and competitiveness.

Recommendation 3
That an additional $286 million be allocated to the budget for indirect research costs (IRC) in the Government of Canada's Indirect Costs Program in order to increase the IRC reimbursement rate to 40%.